Dundee Petroleum Corp.

1997 Annual Report to Shareholders

SUMMARY INFORMATION

		1997	1996	1995
FINANCIAL				
Gross revenues		$ 1,513,530	$ 444,876	$ 0
Cash flow		664,347	63,929	(1,556)
Cash flow per share		0.068	0.012	(0)
Net income		102,888	16,108	(1,634)
Net income per share		0.011	0.003	(0)
Capital expenditures, net		3,418,951	797,585	780
Total assets		4,198,780	1,322,010	109,122
Long term debt		1,075,000	0	0
Shareholders equity		$ 2,302,202	$ 975,452	$ 108,366
Common shares outstanding (Avg)		9,712,415	6,005,760	2,200,000
Trading price per share ($)				
High		0.74	0.40	NA
Low		0.25	0.13	NA
Close		0.36	0.37	NA
OPERATING				
Sales				
Oil and liquids		$ 1,128,775	$ 444,876	$ 0
Natural gas		$ 384,755	$ 0	$ 0
PRODUCTION				
Oil and liquids (Bbls)		44,256	16,047	0
Oil and liquids price		$ 25.51	$ 27.72	0
Natural gas (Mcf)		211,290	0	0
Natural gas price		$ 1.82	0	0
Daily production BOE		180	44	0
Reserves (proven and probable)				
Oil and liquids (MBbls)		552	500	0
Natural gas (Mmcf)		2,722	0	0
WELLS DRILLED				
Oil	gross	3	2	0
	net	0.29	0.35	0
Natural gas	gross	0	0	0
	net	0	0	0
Dry	gross	1	0	0
	net	0.18	0	0

COVER: OIL PAINTING DEPICTING DUNDEE ARCOLA 1D15-34

COMPANY PROFILE

Dundee Petroleum is a Calgary-based, junior energy company engaged in exploration and production of oil and natural gas in Western Canada.

The Company was incorporated as a Junior Capital Pool Corporation in 1995.

Throughout its two-year operating history, Dundee has demonstrated consistent growth in production, cash flow and reserves. This growth has been achieved through a combination of both drilling and acquisition activities.

The common shares of Dundee currently trade on the Alberta Stock Exchange under the symbol DPC.

PRODUCTION (BOE/day)

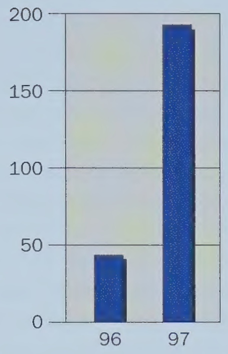


TABLE OF CONTENTS

PRESIDENT'S MESSAGE

In only its second year of operations, 1997 marked another year of stellar growth and profitability for Dundee Petroleum. The Company successfully met its objectives of production and reserve growth at unit costs which enhanced shareholder value. During 1997, Dundee continued to strengthen its asset base by diversifying into natural gas, increasing production fourfold and tripling its land base. Financially, the Company was able to maximize its capital resources, completing $1,589,000 in equity financings, which enabled the Company to carry out its capital programs. Dundee now holds an attractive asset base which combines stable production with the upside of a multitude of high impact drilling and exploration plays.

Dundee's production for 1997 averaged 180 BOE/day, a 309% increase from 44 BOE/day in 1996. Production for the year consisted of 2/3 oil and 1/3 natural gas. Oil production was derived primarily from the Company's Arcola, Bellshill, Killam and Service properties. Natural gas production was attributable to the Company's shallow gas properties located in the border area of southwestern Saskatchewan and southeastern Alberta.

Revenues for the 1997 fiscal year were $1,513,530, an increase of 240% from 1996. Cash flow from operations rose 939% to $664,347 or $.068 per share compared with $63,929 or $.012 per share in 1996. Net income was $102,888 or $.011 per share, up $86,780 from the comparative 1996 period. Average sales price for the 1997 fiscal year was $23.14 per BOE, with oil averaging $25.51 per barrel and natural gas averaging $1.82 per mcf. The Company's average netback for 1997 was $13.95 per BOE.

During 1997, Dundee increased its reserve base by 65%, resulting in total proved and probable reserves of 824,000 BOE. The Company replaced yearly production 6.0 times. Net capital expenditures for 1997 were $3,418,951 which resulted in a two year finding cost of $5.12 per BOE. Dundee's current reserve life index is 10.03 years on a BOE basis.

ACQUISITIONS REVIEW

During 1997, Dundee completed four acquisitions, adding net reserves of 607,500 BOE for a total cost of $2,682,500. The Company was able to execute its strategy of diversification into natural gas, as well as acquire additional properties in its core area of southeast Saskatchewan. In a highly competitive marketplace, acquisition costs were kept below $5 per BOE.

In May 1997, Dundee completed the purchase, effective February 1, 1997, of a 60% before payout and 37.5% after payout interest in ten producing Milk River gas wells in the Yakowan area of southwestern Saskatchewan. The purchase price was $300,000 and during 1997 the property performed admirably, with net cash flow of $136,500 and production of 340 Mcf/day net to Dundee.

In October, 1997, Dundee further expanded its reserve base with the acquisition of Kenesen Resources Ltd., effective July 1, 1997, for a total purchase price of $2,000,000 less working capital adjustments of $300,000. The purchase payment consisted of $1,500,000 cash, $200,000 through the issuance of 500,000 Dundee shares at $.40 per share, and $300,000 through the issuance of a note payable over three years, bearing interest at 8% per annum. The cash portion was funded through working capital and an existing credit facility.

The Kenesen acquisition included varying interests in 12 oil and gas properties, with the majority of the production coming from light oil in central Alberta and shallow gas in southwest Saskatchewan. The properties consist of over 115,000 gross (3,300 net) acres. Net proven and probable reserves for Kenesen are 2.3 Bcf of natural gas and 138,000 barrels of oil. With its long-life reserves, the Kenesen acquisition added approximately 550 Mcf/day of natural gas and 38 Bbls/day of oil to Dundee's production base.

In a third acquisition, which closed in mid-November, Dundee acquired two producing and one shut-in oil property in its core area of southeast Saskatchewan for a total consideration of $295,000. Two of the properties, located at Lost Horse Hill and Glen Ewen, consist of a 100% working interest and are operated by Dundee. Dundee's interest in the third property, located at Oungre, is 75%. As operator, Dundee has scheduled development plans for 1998 at the Glen Ewen property.

Finally, effective November 1, 1997, Dundee completed the strategic acquisition of a third parties' interest in the Company's core area of southeast Saskatchewan. Under this transaction, Dundee acquired 5,935 (2,077 net) acres in the Parkman South, Wauchope, Service and Redvers areas for $87,500.

OPERATIONS REVIEW

During 1997, Dundee participated in the drilling of 4 (net .468) wells, which included 3 wells at Arcola and a minor interest in one well at Ewing Lake. The Arcola horizontal drilling program proved to be successful and increased total field production from 150 Bbls/day to over 600 Bbls/day. Although some of the wells have declined at greater than expected rates, the program did have a major impact on the Company's production and cash flow. The Arcola new pool discovery at 3-3 has shown stabilized production, and Dundee is now looking at ways to further develop and enhance total field production.

At the August, 1997, Saskatchewan land sale, Dundee acquired a 100% interest in a half section of land at Bennett Lake. Located in the general Arcola area, this land is highly prospective for Alida oil pool exploration, which has been confirmed through the purchase and interpretation of 20 km. of 2D seismic over the lands.

Activities on the Company's large Joint Venture land spread in southeast Saskatchewan had mixed results. Dundee and its partner were successful in leasing 1240 gross (434 net) acres of strategic freehold land in the Parkman South and Redvers areas. At Wauchope, the Company spent $42,000 in acquiring a 3D seismic survey which has encouraged the continued development of this play. However, on the operational front, drilling of these prospects was delayed due to partner and rig constraints. With the Parkman South discovery well now drilled, Dundee is now assuming the lead role in the development of the Joint Venture lands, with over $500,000 budgeted for 1998.

OUTLOOK FOR 1998

Dundee is well positioned to continue its growth in production, reserves, cash flow and earnings in 1998. The Company is moving towards its objective (set two years ago) of a 1998 exit production rate of 500 BOE/day and a Net Asset Value of $10,000,000. Management is aiming to achieve these growth targets while keeping finding costs at or below $5 per BOE.

The Company's 1998 drilling program alone, with results risked for success at 50%, is expected to add net production of 175 BOE/day to current production of approximately 230 BOE/day. In 1998, $1,500,000 has been budgeted for drilling and completions, with the majority of this amount earmarked for the Company's Glen Ewen, Bennett Lake, Parkman South and Wauchope properties in southeast Saskatchewan. In addition, another $500,000 has been budgeted for land, seismic and facilities.

As part of its corporate strategy, the Company will also look at property acquisitions and swaps in 1998 which will enhance Dundee's asset value. With the recent downturn in oil prices, management is currently expediting swap negotiations of a minor interest in one of its shallow gas properties for a larger, operated interest in a shallow gas property with significant production and cash flow upside. Should this transaction go forward, we believe it would be prudent to re-direct a portion of the capital budget towards the development of these natural gas reserves.

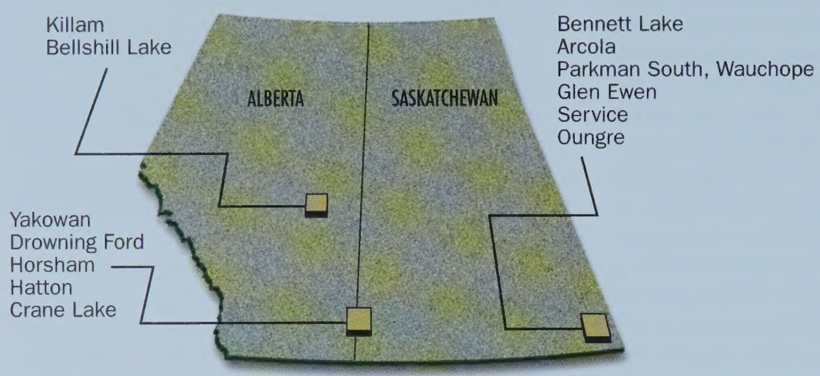
As part of its capital planning and strategy, the Company may endeavor to raise additional equity capital in 1998. The timing and structure of any such financings will be carried out with careful consideration given to the effect on shareholder value. In 1998, management is committed to increasing its investor relations activity and looks forward to greater exposure for Dundee Petroleum in the financial and investment community.

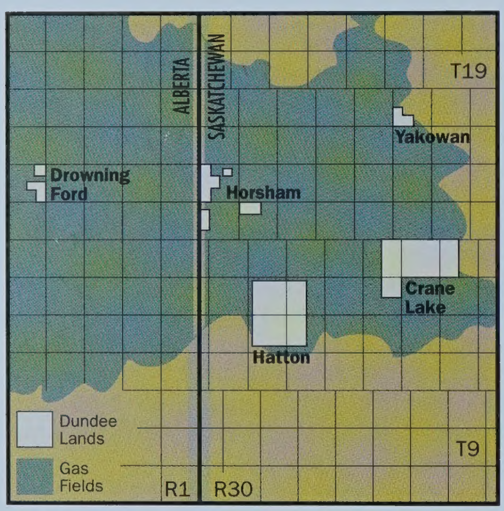
I would like to express my utmost gratitude towards all of the management, employees, directors and shareholders for their support in the continued growth of the Company.

Michael J. Kryczka
President & Chief Executive Officer

PROPERTIES

PROPERTY LOCATOR





SHALLOW GAS PROPERTIES

In 1997, the purchase of the Yakowan property and subsequent acquisition of Kenesen Resources Ltd. enabled Dundee to establish a natural gas production base and new core area.

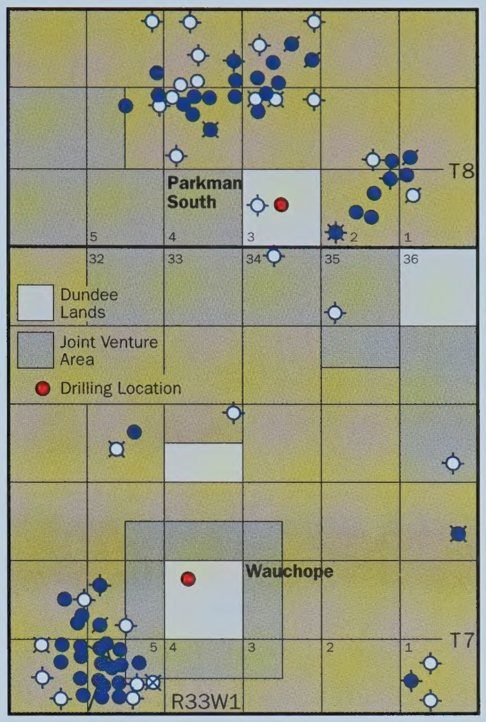
The Company now holds interests ranging from a gross overriding royalty to a 60% working interest in five producing shallow gas fields covering 110,000 gross (3,746) acres. Dundee's net production from these fields averages 800 Mcf/day and encompasses approximately 320 gas wells producing from the Milk River, Medicine Hat and Second White Specks formations.

The properties are characterized by long-life reserves with significant upside and represent 2.7 Bcf of net reserves to Dundee.

At the time of writing, the Company is negotiating a strategic property swap of one of its shallow gas properties. It is anticipated that this swap transaction will further enhance Dundee's exposure to natural gas, and result in the Company operating a gas property with significant production and cash flow upside potential.

PARKMAN SOUTH / WAUCHOPE

Dundee holds an average 35% working interest in over 12,000 gross (4,200 net) acres in its south-east Saskatchewan joint venture area. During 1997, the Company more than doubled its net acreage position in this area through its joint venture freehold leasing program and the strategic purchase of a third party interest. After drilling postponements on these lands in 1997 due mainly to partner delays and rig availability, the focus is now on the Parkman South and Wauchope areas.

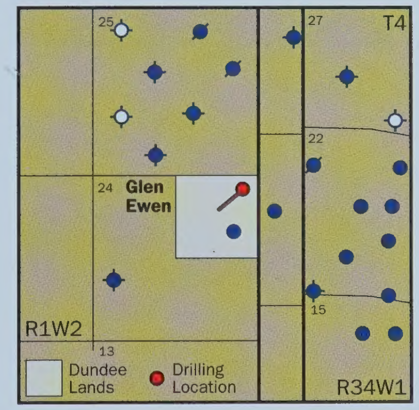


Dundee is now taking the lead role in the development of these properties, which are located on the Tilston subcrop, and contain potential Tilston oil pools ranging between 500,000 to 1,500,000 barrels. At Parkman South, Dundee participated in a new pool discovery in the first quarter of 1998. The Company is now planning a 3D seismic survey to identify follow-up development locations.

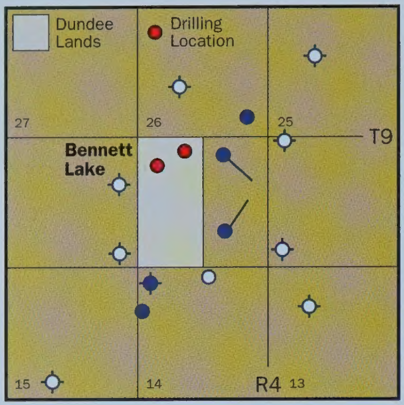
At Wauchope, 3D seismic indicates a similar, highly prospective Tilston structure. During the first quarter of 1998, Dundee was successful in tying up acreage on this play and bringing in new partners to share the risk. It is now anticipated the first well will be drilled shortly after spring breakup.

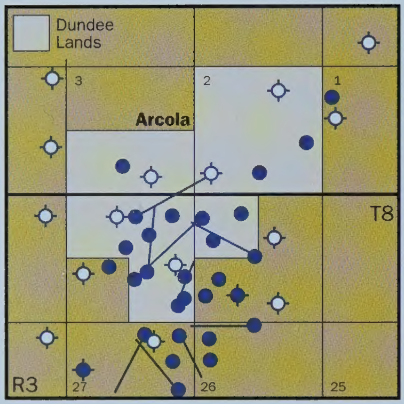
GLEN EWEN

The Glen Ewen field is located in Twp. 3, Rge. 1 W2M. The property was purchased as part of a package effective June 1, 1997. The Company holds a 100% working interest in 160 acres and operates one producing Frobisher oil well, which averaged 8 Bbls/day to Dundee in 1997.



The Glen Ewen property contains significant development potential through either horizontal or vertical infill drilling. Dundee has received downspacing approval from the Saskatchewan Energy and Mines, and is currently negotiating a pooling arrangement with the offsetting land owner, which includes plans to drill a number of development wells in 1998.





BENNETT LAKE

The Bennett Lake property is located approximately six miles from the Company's Arcola property in Twp. 9. Rge. 4 W2M. The Company holds a 100% working interest in 320 acres offsetting a proven Alida oil pool. The land was purchased by Dundee at a 1997 Saskatchewan land sale.

A detailed 2D seismic survey over the Company's lands indicates the lands to be on structure and highly prospective for Alida production. An offsetting horizontal well has produced over 120,000 Bbls. cumulative with initial production in the 200 Bbls/day range. Dundee is planning one horizontal well for this property in 1998.

ARCOLA

The Arcola field is located in Twps. 8 & 9, Rge. 3 W2M. Dundee has a 17.5% working interest in eleven (5 horizontal, 6 vertical) oil wells in the Alida formation and one oil well in the Tilston formation.

During 1997, Dundee's net production from the Arcola field averaged 89 Bbls/day, which accounted for approximately half of the company's revenues and cash flow. This production rate, at almost triple the 1996 rate, was the result of the high impact horizontal drilling program which was completed in March of 1997.

Although this drilling program enabled Dundee to rapidly accelerate its production and reserves, some of the results have been disappointing. The first two wells drilled, 1D15-34 and A16-34 have experienced greater than anticipated declines which have resulted in reserve revisions for the Company's interest in the property. Counteracting these results, the production from the final horizontal well drilled, B4-2 has been superb - averaging 255 Bbls/day over the first twelve months.

Production results for the new pool discovery well at 3-3-9-3 W2M were also encouraging. The well was placed on production in June and averaged 40 Bbls/day for the year.

With a year of production now available to evaluate the results of the Arcola drilling program, Dundee's management believes that further optimization can be achieved at the Arcola field. The Company is working with the new Operator in developing a plan to further enhance the production from the current wells on the property in 1998. In addition, potential follow-up development locations to the 3-3 well are being considered.

LANDS

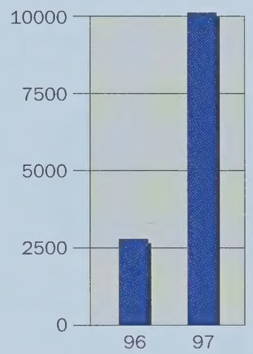
Dundee increased its net land holdings in 1997 by 266% to 10,350 net acres. Assigning an in-house acreage value of $75 per acre, the value of Dundee's undeveloped land is estimated at $498,000.

During 1997, Dundee acquired 1,240 (434 net) acres of freehold acreage under its joint venture leasing program in the Parkman South and Redvers areas. Effective November 1, 1997, Dundee completed a strategic acquisition of a partner's interest in the Parkman South, Wauchope, Service and Redvers areas. Under this transaction, the Company acquired 5,935 (2,077 net) acres for a purchase price of $87,500.

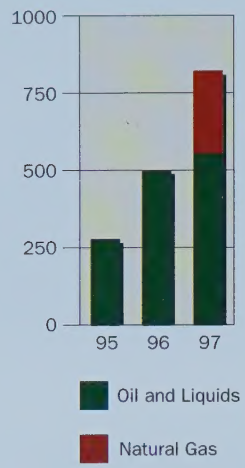
JANUARY 1, 1998 ACREAGE TOTALS

	Total Acres Gross	Total Acres Net	Developed Acres Net	Undeveloped Acres Net
Arcola	1,328	230	70	160
Bellegarde	160	28	-	28
Bellshill Lake	1,280	256	256	-
Bennett Lake	320	320	-	320
Crane Lake	54,000	-	-	-
Drowning Ford	2,240	448	448	-
Glen Ewen	160	160	40	120
Hatton	44,800	1,344	672	672
Horsham	8,000	994	994	-
Ingoldsby	160	28	-	28
Killam	1,440	216	108	108
Lost Horse Hills	480	480	80	400
Monias	1,280	24	24	-
Oungre	80	60	30	30
Parkman South	720	252	-	252
Redvers	3,888	1,367	-	1,367
Rosebank	696	122	-	122
Service	4,394	1,538	22	1,516
Storthoaks	2,388	418	-	418
Wauchope	3,155	1,104	-	1,104
Yakowan	1,600	960	960	-
Totals	**132,569**	**10,349**	**3,704**	**6,645**

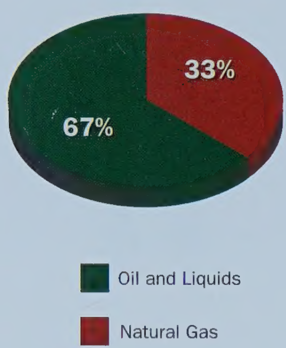
NET LAND HOLDINGS (acres)



PROVED AND PROBABLE RESERVES (MBOE)



RESERVE DISTRIBUTION



RESERVES

During 1997 Dundee increased its reserve base by a net 390,000 BOE or 65%. The Company was successful in its strategy to diversify its product mix and now holds a more balanced reserve portfolio consisting of 67% oil and 33% natural gas.

Net capital expenditures in 1997 amounted to $3,418,951 resulting in a Finding Cost (excluding revisions) of $5.13 per BOE. Finding Costs (including revisions) were $8.79 per BOE, mainly due to downward revisions of the Company's reserves on its Arcola property. Dundee's 2-year cumulative Finding Cost is $5.12 per BOE.

Dundee's Reserve Replacement Ratio, being the ratio of net reserve additions to 1997 production was 5.95. The Company's Recycle Ratio (being the average cash flow netback per BOE ($13.95) divided by the Finding Cost per BOE) was 1.59 for 1997 and 2.72 on a 2-year cumulative basis.

RESERVE LIFE INDEX

(years of reserves left at 1997 annual average production rate)

Oil	**10.82**
Gas	**8.75**
BOE	**10.03**

PRESENT VALUE OF RESERVES

	Reserves		Estimated Net Present Value before Tax at ($000's)			
	Oil & Liquids (MBbls)	Natural Gas (Mmcf)	0%	10%	15%	20%
Proven	524.1	2,579.4	$ 9,978.8	$ 5,815.5	$ 4,772.8	$ 4,017.6
Probable	28.0	142.5	742.8	318.9	237.2	183.6
TOTAL	**552.1**	**2,721.9**	**$10,721.6**	**$ 6,134.4**	**$ 5,010.0**	**$ 4,201.2**

1997 RESERVE RECONCILIATION

	Oil & Liquids (MBbls)			Natural Gas (Mmcf)			Total Equivalents (MBOE)		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
Dec. 31/96	385	115	500	-	-	-	385	115	500
Additions	183	(87)	96	2,791	143	2,933	462	(73)	389
Production	(44)	-	(44)	(211)	-	(211)	(65)	-	(65)
Dec. 31/97	**524**	**28**	**552**	**2,580**	**143**	**2,722**	**782**	**42**	**824**

OVERVIEW

A successful drilling program and several strategic acquisitions have enabled Dundee Petroleum Corp. to achieve strong growth in cash flow and earnings for the year ended December 31, 1997. The Company continues to maintain a strong financial position through the generation of significant cash flow, the use of bank debt to minimize dilution to shareholders, and by raising capital from equity markets when strategically advantageous.

Dundee is committed to achieving steady production growth and creating shareholder value.

The following discussion details Dundee's 1997 financial results as compared to 1996 as well as our outlook for 1998. This discussion should be read in conjunction with the consolidated financial statements and notes for a full understanding of Dundee's financial position and results of operations.

DRILLING

In the 1st Quarter of 1997 Dundee participated in the drilling of 3 wells (.4375 net) at its Arcola field in Saskatchewan, in addition to the 2 wells (.35 net) drilled in the 4th Quarter of 1996. With 4 of the 5 wells on production, the Arcola field generated net operating income of $516,015 in 1997 as compared to $178,842 in 1996 representing an increase of 188%.

ACQUISITIONS

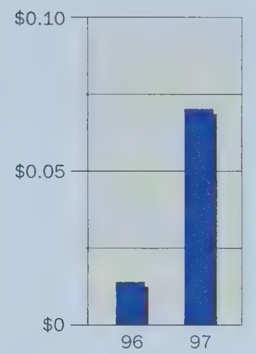
On October 1, 1997, Dundee acquired all of the outstanding shares of Kenesen Resources Ltd. (Kenesen). The purchase price for the shares was $2,000,000 which included $300,000 in working capital and oil and gas properties of $1,700,000. Dundee paid for the acquisition with $1,500,000 cash, issued a note payable for $300,000 and issued $200,000 of share capital. The acquisition was significant for Dundee as daily production was increased by approximately 100 BOE/day, and reserves were increased by 368,000 BOE.

Effective February 1, 1997 Dundee acquired a 60% BPO (37.5% APO) interest in 10 producing gas wells in the Yakowan area of southwest Saskatchewan for $300,000 cash. The Yakowan property has provided strong cash flow for the eleven months ended December 31, 1997 as it produced 340 Mcf/day and received an average price of $1.99/Mcf for net operating income of $136,528.

CASH FLOW AND NET EARNINGS

In 1997 Dundee's cash flow increased by 939% to $664,347 from $63,929 in 1996. On a per share basis, cash flow increased 467% from $.012 in 1996 to $.068 in 1997. Net income increased from $16,108 in 1996 to $102,888 in 1997.

CASH FLOW/SHARE



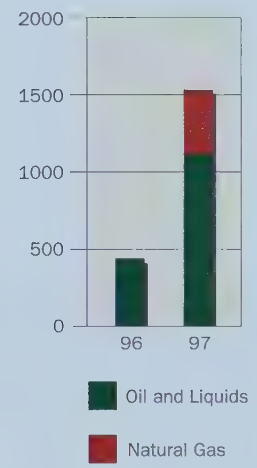
GROSS REVENUES

Years ended December 31

	1997	1996
Oil and liquids	$ 1,128,775	$ 444,876
Natural Gas	384,755	-
	$ 1,513,530	$ 444,876

Revenues from oil and liquids increased by 152% to $1,128,775 in 1997 from $444,876 in 1996. This increase was the result of a 176% gain in total production from 16,047 Bbls. in 1996 to 44,256 Bbls. in 1997. The increase in production is attributable to Dundee's successful 1997 drilling program as well as property acquisitions. Offsetting the increase in production was a decrease in average price of 8% from $27.72/Bbl. to $25.51/Bbl.

GROSS REVENUES ($000'S)



Revenues from natural gas were $384,755 in 1997 as compared to nil in 1996. Dundee's Natural gas production was acquired in two transactions during 1997 and as of July 1, 1997, the company's net production was 882 Mcf/day. Total production for 1997 was 211,290 Mcf and the average sales price was $1.82/Mcf.

ROYALTIES

Royalties (net of Alberta Royalty tax Credit) which include Crown, Freehold and overriding burdens as well as freehold mineral tax, increased from $137,705 in 1996 to $262,316 in 1997. Royalties as a percentage of revenue decreased from 30% in 1996 to 17% in 1997 due to lower commodity prices, royalty holidays on new wells drilled in 1997, and direct royalty revenue earned in 1997.

PRODUCTION EXPENSE

Production costs for crude oil/liquids and natural gas decreased by 27% from $7.13/BOE in 1996 to $5.18/BOE in 1997. The decrease is primarily a result of decreased operating costs at the Company's Arcola field in southeast Saskatchewan. With the addition of 4 new wells in the Arcola field, and an increase in average daily production from 44 Bbls/day in 1996 to 89 Bbls/day in 1997, the production expense/BOE decreased substantially.

Operating costs per BOE on acquired properties were $6.46 for Kenesen and $5.71 for the Yakowan gas field.

NETBACKS

Netbacks on production increased by 16% from $12.01 in 1996 to $13.95 in 1997. Although average price decreased by $4.58/BOE, reduced royalties and operating costs per BOE resulted in an overall increase in net profit.

	1997	1996
Total Production (Boe)	65,385	16,047
Price/Boe	$ 23.14	$ 27.72
Royalties (Boe)	$ 4.01	$ 8.58
Operating expense (Boe)	$ 5.18	$ 7.13
Netback (Boe)	$ 13.95	$ 12.01

GENERAL AND ADMINISTRATIVE

General and administrative expenses were $209,307 in 1997 as compared to $116,226 in 1996. The increase of $93,081 is largely due to expanded responsibilities of the officers of the company as production increased by 308% and revenues increased by 240%. In a plan approved by the Board of Directors, G&A is based on a formula whereby the total G&A per BOE will drop to $2.50 when the company reaches a production level of 500 BOE. G&A per BOE was $3.20 in 1997 as compared to $7.24 in 1996, a decrease of 56%.

Capitalized G&A was $89,499 in 1997 as compared to $10,000 in 1996. The increase in 1997 is due to a proportionately higher amount of time spent by officers working directly on exploration and development activities.

INTEREST EXPENSE

Interest expense increased by 204% from $12,625 in 1996 to $38,434 in 1997. The increase is mainly due to interest paid on the purchase price of acquisitions made during the year. With the acquisition of Kenesen Resources Ltd. on October 1, 1997, Dundee increased its long term debt from zero to $1,200,000. In 1998 interest expense is forecast to increase to $100,000. Dundee's debt to cash flow multiple, based on fourth quarter annualized cash flow is 1:1 at December 31, 1997. The company expects interest rates to remain stable in 1998 such that the debt to cash flow multiple will remain at its present level or lower.

DEPLETION AND AMORTIZATION

Depletion and amortization increased to $477,459 in 1997 from $34,821 in 1996. This increase is primarily due to the Company's larger cost base including the acquisition of Kenesen. On a BOE basis, depletion and amortization increased from $2.16 in 1996 to $7.29 in 1997.

INCOME TAXES

As a result of higher operating revenues deferred income taxes increased from $13,000 in 1996 to $84,000 in 1997. Dundee is not currently taxable and based on available deductions and budgeted capital expenditures for 1998, the Company will continue to be non-taxable in 1998.

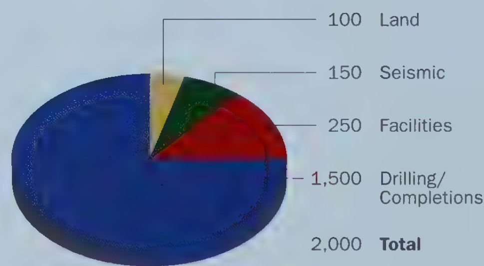
CAPITAL EXPENDITURES

	1997	1996
Acquisition of Kenesen	$ 2,000,000	$ nil
Oil and Gas equipment	253,546	129,624
Land and Seismic	608,839	469,005
Exploration and Development	519,698	192,737
Other Fixed Assets	36,868	6,219
Total	**$ 3,418,951**	**$ 797,585**

Excluding the acquisition of Kenesen 1997 capital expenditures totaled $1,418,951 as compared to $797,585 in 1997, representing an increase of 78%. The acquisition of Kenesen for $2.0M increased total capital expenditures to $3,418,951. Dundee's 1997 capital program was funded through a combination of cash flow, debt financing and the issue of common share equity.

In 1998, the Company has budgeted to spend $2,000,000 on exploration and development which is a 41% increase from 1997.

1998 CAPITAL BUDGET (000'S)



LIQUIDITY AND CAPITAL RESOURCES

At year-end, Dundee had a working capital ratio of 1.16 to 1 with a surplus of $61,651. The company's revolving bank loan capacity was $1.5 million with an unused portion of $625,000. The company's debt to equity ratio was .49 to 1 at December 31, 1997. At December 31, 1997, Dundee had a market capitalization of $4,338,928 as compared to $3,056,570 at year-end 1996 which represents an increase of 42%.

Dundee will continue to maintain a healthy financial position in 1998 as capital expenditures are financed from internally generated cash flow from operations and an appropriate mixture of bank debt and equity.

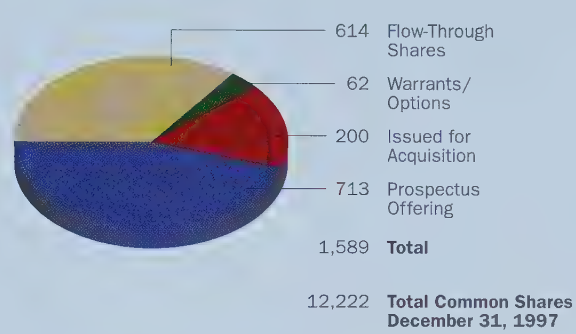
OUTLOOK

Dundee's outlook for 1998 is for continued growth in production and profitability. The 1998 exploration and development budget includes the drilling of 10 wells which we conservatively forecast will increase total production to over 500 BOE/day. Based on pricing sensitivities and drilling success the Company forecasts annualized cash flow to increase to between $.13 per share and $.24 per share by the end of fiscal 1998. The low case is based on 50% drilling success, oil price average of $15.00 U.S. WTI and $1.50 Cdn. for natural gas.

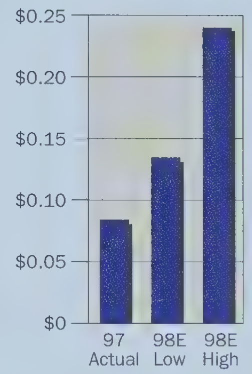
Dundee's operations are conducted in Western Canada and involve certain business risks. These risks include the uncertainty of replacing annual production and finding new reserves on an economic basis, and the instability of commodity prices, foreign exchange rates and interest rates. Dundee manages these risks by employing highly trained and competent management who carry out the following corporate strategies:

- Balance production portfolio between oil and gas
- Pursue low risk development projects and moderate risk exploration plays
- Acquisition of producing assets with significant upside development potential
- Maintain low finding, operating and general and administrative costs

TOTAL 1997 FINANCINGS (000'S)



CASH FLOW/SHARE



MANAGEMENT'S REPORT

Management is responsible for the integrity and objectivity of the information contained in this annual report and for the consistency between the financial statements and other financial operating data contained elsewhere in the report. The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using estimates and careful judgement, particularly in those circumstances where transactions affecting a current period are dependent upon future events. The accompanying financial statements have been prepared using policies and procedures established by management and reflect fairly the Company's financial position and results of operations, within reasonable limits of materiality and within the framework of the accounting policies outlined in the notes to the financial statements.

Management has established and maintains a system of internal control which is designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that financial information is reliable and accurate.

The financial statements have been examined by external auditors appointed by the shareholders. Their examination provides an independent view as to management's discharge of its responsibilities insofar as they relate to the fairness of reported operating results and financial condition.

The Audit Committee of the Board of Directors, has reviewed in detail the financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Michael J. Kryczka
President & Chief Executive Officer

Hugh M. Thomson
Vice President, Finance &
Chief Financial Officer

AUDITOR'S REPORT

I have audited the consolidated balance sheet of Dundee Petroleum Corp. as at December 31, 1997 and 1996 and the consolidated statements of operations and retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1997 and 1996 and the results of its operations and the changes in its cash resources for the years then ended in accordance with generally accepted accounting principles.

Stan Peloski
Chartered Accountant

Calgary, Alberta, March 31, 1998

As at December 31

	Note	1997	1996
Assets			
Current Assets			
Cash and cash equivalents		$ 23,707	$ 489,318
Marketable securities	3	110,000	-
Accounts receivable		290,136	48,517
Prepaid expenses and deposits		34,979	10,709
		458,822	548,544
Property and Equipment	4	3,739,958	773,466
		$ 4,198,780	$ 1,322,010
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 297,171	$ 323,558
Current maturity on long term debt		100,000	-
		397,171	323,558
Long Term Debt	5	1,075,000	-
Other Liabilities		35,000	10,000
Deferred Income Taxes		389,407	13,000
		1,896,578	346,558
Shareholders' Equity			
Share Capital	6	2,184,840	960,978
Retained Earnings		117,362	14,474
		2,302,202	975,452
		$ 4,198,780	$ 1,322,010

Approved on Behalf of the Board:

Director

Director

Consolidated Statement of Operations and Retained Earnings

For the years ended December 31

	Note	1997	1996
Revenue			
Petroleum and natural gas sales		$ 1,513,530	$ 444,876
Royalties		(262,316)	(137,705)
		1,251,214	307,171
Expenses			
Operating and production		339,126	114,391
General and administrative	**8**	209,307	116,226
Interest		38,434	12,625
Depletion and amortization		477,459	34,821
		1,064,326	278,063
Income before income taxes		186,888	29,108
Deferred Income Taxes	**9**	84,000	13,000
Net Income for Year		102,888	16,108
Retained Earnings (Deficit), beginning of year		14,474	(1,634)
Retained Earnings, end of year		$ 117,362	$ 14,474
Income per Share			
Basic		$ 0.011	$ 0.003
Fully Diluted		$ 0.008	$ 0.003

For the years ended December 31

	Note	1997	1996
Operating Activities			
Net income		$ 102,888	$ 16,108
Items not affecting cash flow			
Depletion and amortization		477,459	34,821
Deferred income taxes		84,000	13,000
Funds provided by operations		664,347	63,929
Net change in non-cash working capital balances related to operating activities		(45,691)	(13,743)
Cash provided by operating activities		618,656	50,186
Financing Activities			
Advances on long term debt		875,000	-
Issuance of note payable		300,000	-
Issuance of share capital		1,223,862	858,763
Cash provided by financing activities		2,398,862	858,763
Investing Activities			
Acquisition of subsidiary net assets	1	(2,000,000)	-
Acquisition of property and equipment		(1,289,905)	(797,585)
Changes in non-cash working capital components related to investing activities		(193,224)	277,837
Cash used in investing activities		(3,483,129)	(519,748)
Increase (Decrease) in Cash for Year		(465,611)	389,201
Cash, beginning of year		489,318	100,117
Cash, end of year		$ 23,707	$ 489,318
Cash Flow from Operations per Share			
Basic		$ 0.068	$ 0.012
Fully Diluted		$ 0.055	$ 0.011

December 31, 1997 and 1996

1. The Corporation

Dundee Petroleum Corp. (the Corporation) was incorporated on August 17, 1995, under the *Business Corporations Act (Alberta)* and is publicly traded on The Alberta Stock Exchange. The Corporation's principal activity is the exploration for and development of petroleum and natural gas.

The consolidated financial statements of the Corporation have been prepared by management in accordance with accounting principles generally accepted in Canada and include the accounts of the Corporation and its wholly-owned subsidiary.

(a) Business Combination

Effective July 1, 1997 the Corporation acquired all of the issued shares of Kenesen Resources Ltd. (Kenesen) for $2,000,000. The transaction has been recorded using the purchase method on the basis that the Corporation is the acquirer. The purchase price and consideration were allocated as follows:

Purchase price	
Working capital	$ 163,361
Property and equipment	2,129,046
Deferred income taxes payable	(292,407)
	$ 2,000,000

Consideration	
Cash	$ 1,500,000
Note payable *[Note 5]*	300,000
Issuance of 500,000 voting common shares at $0.40 per share *[Note 6(b)]*	200,000
	$ 2,000,000

Terms of the acquisition called for a working capital balance of approximately $248,000 to be available in Kenesen at the closing date. Accounts receivable includes a provision for a price adjustment in respect of the apparent shortfall, the exact amount of which is under negotiation. In the alternative, a price adjustment may be achieved through a reduction in the promissory note payable *[Note 5]*.

Supplemental pro-forma information reflecting the results of operations as though the companies had combined at the beginning of the year is presented in *Note 12*.

Subsequent to December 31, 1997, Kenesen has been wound up into the Corporation. *[Note 11(b)]*

(b) Partnership Operations

Effective October 1, 1997, the Corporation and its Kenesen transferred all of their petroleum and natural gas properties to the Dundee Petroleum Partnership (the Partnership). These consolidated financial statements reflect the operations of the partnership from inception to December 31, 1997. The fiscal year end of the partnership is June 30.

Supplemental information reflecting the operations of the partnership is presented in *Note 13*.

Subsequent to December 31, 1997, Kenesen transferred its partnership interest to a new company. *[Note 11(b)]*

2. Significant Accounting Policies

(a) Petroleum and Natural Gas Properties

The Corporation follows the full cost method of accounting for petroleum and natural gas properties whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, the cost of drilling both productive and non-productive wells, costs of production and gathering equipment that portion of general and administrative expenses directly related to acquisition, exploration and development activities. Proceeds received from the disposition of properties are credited against accumulated costs except under circumstances which result in a material change in the rate of depletion, in which case a gain or loss is recorded and reflected in the statement of operations.

Capitalized costs, together with estimated future costs associated with the development of proven reserves are depleted using the unit-of-production method based on estimated proven reserves of petroleum and natural gas, before royalties, as determined by independent engineers. For purposes of the depletion calculation, petroleum and natural gas reserves are converted to a common unit of measurement based on their relative energy content.

Costs of acquiring and evaluating unproven properties are initially excluded from the depletion calculation. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned, or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Corporation applies a ceiling test to capitalized costs to ensure that such costs do not exceed the estimated future net revenues from production of proven reserves, at prices and operating costs in effect at the year end, plus the cost of unevaluated properties less management's estimate of impairment thereof. This test also provides for estimated future removal and site restoration costs, general and administrative costs, financing charges and income taxes that will be incurred in earning these revenues.

(b) Future Site Restoration Costs

Future site restoration costs are estimated and recorded over the expected life of the Corporation's petroleum and natural gas reserves using the unit-of-production method. Costs are based on engineering estimates considering current regulations, costs and industry standards. Actual expenditures incurred are applied against the accumulated provision for future site restoration costs. The provision is classified as other liabilities.

(c) Amortization

Amortization of office equipment is provided using the declining balance method at the rate of 20% to 30% per annum.

(d) Joint Operations

Substantially all of the Corporation's exploration and development activities are conducted jointly with others and, accordingly, these financial statements reflect only the Corporation's proportionate interest in such activities.

(e) Flow-through Shares

Under the provisions of the Income Tax Act (the "Act"), a corporation may issue shares, the proceeds of which are used to incur "qualifying expenditures" as defined in the Act. The subscriber for these shares, and not the Corporation, is entitled to deduct these "qualifying expenditures" for Income Tax purposes.
Petroleum and natural gas properties and share capital are reduced by the estimated cost of the tax deductions renounce by the Corporation when the qualifying expenditures are incurred.

(f) Measurement Uncertainty

The amounts recorded for depletion of petroleum and natural gas properties and the provision for future site restoration costs are based on estimates. The ceiling test is based on estimates of proven reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(g) Per Share Data

Per share data are calculated based on the weighted average number of shares of 9,712,415 (fully diluted - 12,121,395) outstanding during the year.

3. Marketable Securities

At December 31, 1997, the fair market value of the Corporation's marketable securities approximates the carrying value thereof.

4. Property and Equipment

	1997 Cost	1997 Accumulated Depletion and Amortization	1997 Net Book Value	1996 Cost	1996 Accumulated Depletion and Amortization	1996 Net Book Value
Petroleum and natural gas properties						
Leases and rights	$ 1,256,434	$ 145,469	$ 1,110,965	$ 469,005	$ 13,890	$ 455,115
Exploration and development costs	2,452,621	250,191	2,202,430	192,737	5,708	187,029
Lease and well equipment	983,993	587,310	396,683	129,624	3,839	125,785
	4,693,048	982,970	3,710,078	791,366	23,437	767,929
Office equipment	43,867	13,987	29,880	6,999	1,462	5,537
	$ 4,736,915	$ 996,957	$ 3,739,958	$ 798,365	$ 24,899	$ 773,466

	1997	1996
General and administrative expenses capitalized during the year	$ 89,499	$ 16,000
Cost relating to unproven properties excluded from the calculation of depletion and the ceiling test	$ -	$ 205,000
Net book value of petroleum and natural gas properties not subject to deduction for income tax purposes - renounced pursuant to issuance of flow-through common shares *[Note 6]*	$ 355,557	$ 132,260
Current charge for future site restoration costs	$ 25,000	$ 10,000
Estimated future site restoration costs to be recorded	$ 276,100	$ 301,100

5. Long Term Debt

	1997	1996
Revolving operating demand loan	$ 875,000	$ -
Promissory note payable	300,000	-
	1,175,000	-
less, current maturity	100,000	-
	$1,075,000	$ -

(a) Revolving Operating Demand Loan

National Bank of Canada, bearing interest at the bank's prime rate plus 1% (7.0% at December 31, 1997). The Corporation has arranged a credit facility of $1,500,000, secured by a general assignment of book debts from the Corporation and its subsidiary, first floating charge debentures in the amount of $10,000,000, over all assets, from the Corporation and its subsidiary, a continuing limited guarantee in the amount of $1,500,000 from Kenesen Resources Ltd. and negative pledges from the Corporation and its subsidiary to provide fixed charges over producing properties at the request of the bank.

(b) Promissory Note Payable

Bearing interest at the rate of 8% per annum and repayable in quarterly installments of $25,000 commencing March 31, 1998. This note relates to the acquisition of the shares of Kenesen Resources Ltd. *[Note 1(a)]*.

Principal repayments of $100,000 per annum, over the next three years, are required under the terms of the note.

6. Share Capital

(a) Authorized

Unlimited number of voting common shares
Unlimited number of non-voting common shares
Unlimited number of preferred shares, issuable in series
3,000,000 Class A warrants

(b) Issued Common Voting Shares	Number	Amount
Balance, December 31, 1995	2,200,000	$ 110,000
Issued for cash pursuant to initial public offering	2,600,000	260,000
Issued for cash pursuant to private offerings		
Flow-through	3,005,000	651,500
Equity	306,000	99,450
Issued for cash upon exercise of options		
Agents	100,000	10,000
Stock option plan	50,000	5,000
Income tax benefits renounced on issuance of flow-through shares		(110,000)
Costs of issuance		(64,972)
Balance December 31, 1996	8,261,000	$ 960,978
Issued for cash pursuant to private flow-through offerings *[Note 10(b)]*	1,486,034	613,840
Issued for cash pursuant to public equity offering *[Note 6(c)]*	1,584,300	712,935
Issued for cash upon exercise of agents' options	285,000	41,000
Issued for cash upon exercise of options under Stock Option Plan	210,000	21,000
Issued upon acquisition of shares of Kenesen Resources Ltd. *[Note 1(a)]*	500,000	200,000
Issuer repurchase for cancellation	(104,000)	(39,990)
Income tax benefits renounced on issuance of flow-through shares		(205,000)
Costs of issuance		(119,923)
Balance December 31, 1997	12,222,334	$ 2,184,840

(c) Issued Class A Warrants

During the year ended December 31, 1997, the Corporation issued 1,584,300 units consisting of one common share and one Class A warrant at $0.45 per unit. The Class A warrants entitled the holder to acquire one common share, at a price of $0.60 per share, until August 1, 1998.

At December 31, 1997 a total of 1,584,300 Class A warrants are issued and outstanding.

(d) Options

Pursuant to an Agency Agreement, the Corporation granted an agent, McDermid St. Lawrence Chisholm Ltd., non-transferable options to purchase 260,000 common voting shares at $0.10 per share. These options have been exercised.

The Corporation also granted options to various agents, for the purchase of 128,500 voting common shares at $0.20 per share. Options for 125,000 shares have been exercised and options for 3,500 shares have expired.

Pursuant to an Agency Agreement, the Corporation granted an agent, Rogers & Partners Securities Inc., non-transferable options to purchase 158,430 common voting shares at $0.45 per share until February 1, 1999.

The Corporation has established a Stock Option Plan (the Plan) for its directors, officers, employees and consultants. At December 31, 1997, 1,222,223 voting common shares were reserved in respect of options to be granted under the Plan.

During the year ended December 31, 1997 the Corporation granted options, under the Plan, for the purchase of shares as follows:
331,250 shares at $0.38 per share, expiring January 8, 2002
25,000 shares at $0.53 per share, expiring January 28, 2002

At December 31, 1997 the following options to purchase voting common shares were outstanding:

Directors, Officers and Consultants
Options for 180,000 shares at $0.10 per share, expiring December 31, 1999
Options for 130,000 shares at $0.20 per share, expiring December 31, 1999
Options for 331,250 shares at $0.38 per share, expiring January 8, 2002
Options for 25,000 shares at $0.53 per share, expiring January 28, 2002

Subsequent to December 31, 1997, additional options have been granted pursuant to the Stock Option Plan. *[Note 11(a)]*

(e) Flow-through Shares

Under the provisions of the Income Tax Act (the "Act"), a corporation may issue shares, the proceeds of which are used to incur "qualifying expenditures" as defined in the Act. The subscriber for these shares, and not the Corporation, is entitled to deduct these "qualifying expenditures" for Income Tax purposes.

7. Financial Instruments

The carrying values of the Corporation's financial assets and liabilities approximates their fair market values at December 31, 1997.

8. Related Party Transactions

The following related party transactions have been recorded:

(a) A total of $155,053 (1996 - $38,557) was paid to officers and directors of the Corporation for management and consulting services.

(b) A total of $62,673 (1996 - $37,793), including fees and disbursements, was paid to a firm of solicitors in which an officer of the Corporation is a partner. Of this amount, 12,000 has been capitalized, $31,693 is included in costs of issuance of share capital *[Note 6(b)]* and $18,980 is included in general and administrative expenses.

9. Income Taxes

The provision for income taxes differs from the result which would have been obtained by applying the combined federal and provincial tax rates (approximately 45%) to the Corporation's income (loss) before income taxes. This difference results from the following items:

	1997	1996
Expected income taxes	$ 84,000	$ 13,000
Non-deductible Crown payments	34,000	33,000
Resource allowance	(60,000)	(31,000)
Other	26,000	(2,000)
	$ 84,000	$ 13,000

At December 31, 1997, the Corporation has losses for income tax purposes, available to reduce future taxable incomes of approximately $102,500, which expire as follows:

in 2002	$ 3,000
in 2003	$ 34,000
in 2004	$ 65,500

At December 31, 1997, the Corporation has the following income tax pools, available to reduce future taxable incomes at the annual rates indicated:

	Rate	
Canadian oil and gas property expense	10%	$ 1,015,000
Canadian development expense	30%	135,500
Undepreciated capital costs	20% - 30%	465,500
		$ 1,616,000

10. Commitments

(a) Operating Lease

The Corporation is committed to the following minimum annual payments, pursuant to an operating lease for premises which expires July 31, 1999:

1998	$ 6,685
1999	$ 3,900

(b) Capital Expenditures

The Corporation is committed, pursuant to the issuance of flow-through common shares, to incur "qualifying expenditures" in the amount of $688,428 during the forthcoming year. *[Note 6(b)]*

11. Subsequent Events

Subsequent to December 31, 1997:

(a) The Corporation has granted options, pursuant to the Stock Option Plan, for the purchase of 590,000 voting common shares at $0.31 per share until January 29, 2003

(b) The Corporation's wholly-owned subsidiary transferred its interest in the Partnership to a new company, Kenesen Petroleum Corp. and was wound up into the Corporation.

12. Supplemental Pro-forma Information

Pro-forma Consolidated Statement of Operations
For the year ended December 31, 1997

Revenue	
Petroleum and natural gas sales, net of royalties	$ 1,542,493
Expenses	
Operating and production	427,607
General and administrative	227,307
Interest	78,434
Depletion and amortization	492,433
	1,225,781
Income before income taxes	316,712
Deferred Income Taxes	143,000
Net Income for Year	$ 173,712
Earnings per Share	
Basic	$ 0.018
Fully Diluted	$ 0.014

13. Supplemental Partnership Information

Statement of Operations
For the period from inception, October 1, 1997, to December 31, 1997

Revenue	
Petroleum and natural gas sales, net of royalties	$ 325,328
Expenses	
Operating and production	90,808
Depletion and amortization	136,159
	226,967
Net Income for Period	$ 98,361

CORPORATE INFORMATION

HEAD OFFICE:
1480, 717 - 7 Avenue S.W.
Calgary, AB T2P 0Z3

OFFICERS:
Michael J. Kryczka - President & Chief Executive Officer
Harry Issler - Vice President, Exploration
Kam A. Fard - Vice President, Production
Hugh M. Thomson - Vice President, Finance
Thomas W. Robinson - Secretary

DIRECTORS:
Michael J. Kryczka - Chairman
Hugh M. Thomson - Chief Financial Officer
David M. Johnson
Director/Secretary - Pacific Ranger Petroleum Inc.

Robert W. Lamond
Chairman/President - Humboldt Capital Corp.

Charles A. Teare
Director/Chief Financial Officer - Humboldt Capital Corp.

Wayne M. Newhouse
President - Newhouse Resource Management Ltd.

BANKING:
National Bank of Canada

AUDITORS:
Stan Peloski, Chartered Accountant

LEGAL COUNSEL:
Johnston Robinson Clark

ENGINEERING:
Apex Energy Consultants Inc.

COMMON SHARES LISTED:
Alberta Stock Exchange
Symbol: DPC

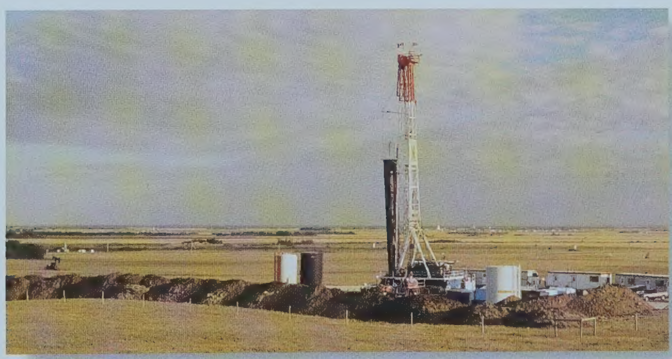
NOTICE OF MEETING

The Annual General Meeting of the shareholders of Dundee Petroleum Corp. will be held on May 28, 1998, at 4:00 pm at The Conference Centre Plus 15 level, Alberta Stock Exchange Tower, 300 - 5th Avenue, S.W., Calgary, Alberta.

Shareholders unable to attend are encouraged to complete and return the accompanying form of proxy.

ABBREVIATIONS

Bbls	Barrels
Bbls/day	Barrels of oil per day
MBbls	Thousand barrels
Bcf	Billion cubic feet
BOE	Barrels of oil equivalent (10 MCF equivalent to 1 Bbl)
MBOE	Thousands of barrels of oil equivalent
BOE/day	Barrels of oil equivalent per day
Mcf	Thousand cubic feet
Mmcf	Million cubic feet
Mcf/day	Thousand cubic feet per day
NGL	Natural gas liquids



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